Teacher Lesson Plan

Module 11—Earned Income Credit

Time Frame
One to three class periods

Curriculum Area(s)
- Technology
- Civics/Government
- Family and Consumer Sciences
- History/Social Studies
- Economics

Purpose
To help students understand the earned income credit

Objectives
Students will be able to
- distinguish between a tax deduction and a tax credit.
- explain how the earned income credit affects the tax liability.
- apply the requirements to claim the earned income credit.
- describe the factors that determine the amount of the earned income credit.

Materials
Online

Student Lesson—Earned Income Credit
Tax Tutorial—Earned Income Credit
Simulation 11A—Claiming the Earned Income Credit without a Qualifying Child
Simulation 11B—Claiming the Earned Income Credit with a Qualifying Child
Assessment—Earned Income Credit
Assessment Solutions—Earned Income Credit

Print (PDF)

Fact Sheet—Earned Income Credit
Teacher Lesson Plan—Earned Income Credit

Tax Forms

Form 1040, *U.S. Individual Income Tax Return*
Schedule EIC, *Earned Income Credit*

Background

A tax deduction reduces the income subject to tax. A tax credit is a dollar-for-dollar reduction of the tax. The earned income credit is a refundable tax credit for people who work and whose earned income and adjusted gross income are under a specific limit. Many rules apply to the earned income credit, including a limit on the amount of investment income. Generally, the taxpayer's earned income, filing status, and number of qualifying children, if any, determine the credit. The earned income credit reduces the tax. Eligible taxpayers can receive the earned income credit even if their tax is zero. This makes it a refundable credit.

Key Terms

adjusted gross income—Gross income reduced by certain amounts, such as a deductible IRA contribution or student loan interest
earned income—Includes wages, salaries, tips, includible in gross income, and net earnings from self-employment earnings.
Earned Income Credit—A tax credit for certain people who work, meet certain requirements, and have earned income under a specified limit.
investment income—Includes taxable and tax-exempt interest, dividends, capital gains net income, certain rent and royalty income, and net passive activity income.
qualifying child—A qualifying child for the earned income credit meets relationship, age, and residency tests.
tax credit—A dollar-for-dollar reduction in the tax. Can be deducted directly from taxes owed.
tax deduction—An amount (often a personal or business expense) that reduces income subject to tax.

Opening the Lesson

Hand out Fact Sheet—Earned Income Credit. Use the following questions to prompt students to share what they know about the credit:

- Would you rather have a tax deduction or a tax credit for the same amount? **A tax credit; a tax deduction reduces the amount subject to tax, and a tax credit is a dollar-for-dollar reduction of the tax.**

- Why is there a tax credit for low-income workers? **The earned income credit encourages taxpayers to be employed; it supplements the income of workers who are not highly paid.**

Then, explain that this lesson covers the requirements to claim the earned income credit.

Note: Refer students who may want to work independently on this module to Student Lesson—Earned Income Credit.

Developing the Lesson

Direct students to Tax Tutorial—Earned Income Credit, and explain that this tax tutorial focuses on the earned income credit. Tell students they will learn (or review) the difference between a tax deduction and a tax credit and that they will learn about the requirements for claiming the earned income credit. Inform students that the earned income credit depends on the taxpayer's earned income, filing status, and the number of qualifying children, if any. The earned income credit reduces the tax. Eligible taxpayers can receive the earned income credit even if their tax is zero. Inform students that they will have an opportunity to see how the tax credit is reported on tax forms.

Online Activity

Direct students to Simulation 11A—Claiming the Earned Income Credit without a Qualifying Child. Explain that they will use the information to determine whether Seth Wiggins, a single taxpayer without a qualifying child, is eligible for the earned income credit. Students will then help prepare Form 1040EZ.

Then, direct students to Simulation 11B—Claiming the Earned Income Credit with a Qualifying Child. Explain that they will use the information to determine whether Stephen and April Beach, married taxpayers with a qualifying child, are eligible for the earned income credit. Students will then help the Beachs prepare Form 1040A.

Concluding the Lesson

After the students have completed Tax Tutorial—Earned Income Credit, Simulation 11A—Claiming the Earned Income Credit without a Qualifying Child, and Simulation 11B—Claiming the Earned Income Credit with a Qualifying Child, ask them whether they have any questions about the earned income credit. To ensure that they understand the material, ask the following questions:

- At the same adjusted gross income level, which taxpayer has the higher earned income credit: a single worker with no qualifying children or a married couple with two qualifying children? **The earned income credit is larger for taxpayers with qualifying children.**

- Can a taxpayer with no earned income claim the earned income credit? **No; a taxpayer must have earned income to receive the earned income credit.**

Assessment

As a final review, summarize the major lesson points. Remind students that the earned income credit is a tax credit for certain people who work and whose earned income and adjusted gross incomes are under a specified limit. Many rules apply to the earned income credit. Generally, the taxpayer's earned income, filing status, and number of qualifying children, if any, determine the credit. The earned income credit reduces the tax. Eligible taxpayers can receive the earned income credit even if their tax is zero. This makes it a refundable credit. When students are comfortable with the material, have them complete Assessment—Earned Income Credit.

Assessment

Module 11: Earned Income Credit

Part 1

Match the questions below to their correct answers by choosing from the drop-down menu. To assess your answers, click the *Check My Answers* button at the bottom of the page.

Interest and dividends are classified as what type of income?	*Investment*
Self-employment earnings are classified as what type of income?	*Earned*
What is reduced by the earned income credit?	*Tax*
The highest earned income credit is for taxpayers with how many qualifying children?	*Two or more*

Part 2

Answer the following multiple-choice and true/false questions about the earned income credit by clicking on the correct answers. To assess your answers, click the *Check My Answers* button at the bottom of the page.

1) Which taxpayer can claim the earned income credit if all other requirements are met?

A. A U.S. citizen who lived in Canada for the entire year with his child

B. A taxpayer who uses the married filing a separate return filing status

C. A taxpayer who earned $5,000 in self-employment income *Correct*

D. A taxpayer who does not have a Social Security number

2) Which person cannot be claimed as a qualifying child?

A. A 12-year-old stepdaughter who lived with the taxpayer in the United States for more than half of the tax year

B. A 19-year-old brother and full-time student who lived with the taxpayer in the United States for more than half of the tax year

C. A 5-year-old sister whose mother is claiming the credit with this child *Correct*

D. A 10-year-old foster child, placed by an authorized agency, who is cared for as the taxpayer's own child

3) The taxpayer can receive the earned income credit even if the taxpayer's tax is zero.

A. True *Correct*

B. False

4) For the earned income credit, there is no adjusted gross income limit.

A. True

B. False *Correct*

5) If adjusted gross income is the same, the highest earned income credit is for a taxpayer without a qualifying child.

A. True

B. False *Correct*

6) The earned income credit reduces the income subject to tax.

A. True

B. False *Correct*

Part 3

Answer the following multiple-choice question about qualifying children by clicking on the correct answers. To assess your answers, click the *Check My Answers* button at the bottom of the page.

1) Tonya and Keenan were married and lived together in Alabama with their six-year-old son, Timothy, until August. In August, Keenan moved out. The couple divorced in December. Both Tonya and Keenan have jobs. Tonya's earned income and adjusted gross income for the year were $13,000, and Keenan's earned income and adjusted gross income were $14,000. Who can claim Timothy as a qualifying child for the earned income credit using the tiebreaker rules?

A. Tonya *Correct*

B. Keenan